

## 2 The Real Estate License Examinations

The law requires that the Department of Real Estate (DRE) ascertain, by written examination, the competency of a prospective real estate licensee. DRE cannot waive this examination requirement.

This chapter discusses the examination process in general, details the scope of the examinations and includes practice questions.

A pamphlet titled *Instructions to License Applicants* provides detailed information about examination and licensing procedures. Interested persons may obtain this pamphlet and an application to take an examination by calling or writing any DRE office.

### SCOPE OF EXAMINATION

Business and Professions Code Section 10153 requires that the real estate examinations test for the following:

- knowledge of the English language, including reading, writing and spelling; and of arithmetical computations used in real estate and business opportunity practices;
- understanding of the principles of real estate and business opportunity conveyancing; the general purposes and general legal effect of agency contracts, deposit receipts, deeds, mortgages, deeds of trust, chattel mortgages, bills of sale, land contracts of sale and leases; and of the principles of business and land economics and appraisals; and
- understanding of the obligations between principal and agent; of the principles of real estate and business opportunity practice and the canons of business ethics pertaining thereto; and of the Real Estate Law, the Subdivided Lands Law and the Commissioner's Regulations.

### PREPARING FOR AN EXAM

Unless a prospective licensee has had experience with the various types of real estate transactions and has *thorough* knowledge of real estate fundamentals, including the obligations of an agent and the laws and regulations governing an agent's activities, it is suggested that *serious* study be undertaken prior to taking the examination. Even persons well-grounded in these areas will find a review extremely valuable.

This book and DRE's *Real Estate Law* book are useful study tools. In addition, public libraries and bookstores have textbooks on California real estate law, practice, finance, economics and appraisal. Real estate courses are available at colleges and private vocational schools.

### EXAM CONSTRUCTION

DRE's testing program follows guidelines set by the State Personnel Board and other test authorities. Periodically, DRE uses research studies to update the test specifications. Because there are differences in the level and amount of knowledge required of salespersons and brokers, the exams differ in their emphasis and difficulty.

## EXAMINATION WEIGHTING

DRE attempts to place proper emphasis on the content areas of the examinations. The exact weighting for each subject is included in the **current** edition of DRE's brochure *Instructions to License Applicants*. This publication is also available on-line at the DRE Web site at [www.dre.ca.gov](http://www.dre.ca.gov).

## REAL ESTATE SALESPERSON LICENSING EXAMINATION OUTLINE

### Section I - Property Ownership/Land Use Controls

- Classes of Property
- Land Characteristics
- Encumbrances
- Types of Ownership
- Descriptions of Property
- Government Rights in Land
- Public and Private Controls

### Section II - Transfer of Property

- Title Insurance
- Deeds
- Escrow
- Reports
- Tax Aspects
- Probate

### Section III - Valuation and Market Analysis

- Value
- Methods of Estimating Value/Appraisal Process
- Competitive Market Analysis

### Section IV - Financing

- General Concepts
- Types of Loans
- Sources
- Government Programs
- Mortgages/Deeds of Trust
- Financing/Credit Laws

### Section V - Laws of Agency/Mandated Disclosures

- Law, Definition & Nature of Agency Relationships, Types of Agencies & Agents
- Creation of Agency & Agency Agreements
- Responsibilities of Agent to Principal
- Responsibilities to Buyer & Third Parties
- Disclosure of Agency
- Disclosure of Acting as Principal or Other Interest
- Termination of Agency
- Commissions and Fees

**Section VI - Contracts**

- General
- Listing Agreements
- Advance Fee Agreements
- Buyer/Broker Agreements
- Offers/Purchase Agreements
- Counteroffers/Multiple Counteroffers
- Leases as Contracts
- Options
- Rescission and Cancellation Agreements
- Broker/Salesperson Agreements

**Section VII - Real Estate Practice**

- Trust Accounts
- Fair Housing Laws
- Advertising
- Record Keeping Requirements
- Agent Supervision
- Continuing Education Requirements
- Disciplinary Actions
- Unauthorized Practice of Law
- Specialty Areas

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### **EXAM RULES - EXAM SUBVERSION**

The typical rules for examinations apply: conversation is not permitted; the use of notes or references to texts is strictly forbidden; dishonest practice of any kind will result in a nonpassing grade and may be grounds for denying future examinations.

DRE may deny, suspend, revoke or restrict the license of an applicant or licensee who subverts or attempts to subvert a licensing examination. Conduct which constitutes

subversion includes but is not limited to the following:

1. Removing exam material from a test site.
2. Reproducing exam material without authorization.
3. Using paid examinees for the purpose of reconstructing an examination.
4. Using improperly obtained test questions to prepare persons for examination.
5. Selling, distributing, or buying exam material.
6. Cheating during an exam.
7. Possessing unauthorized equipment or information during an examination.
8. Impersonating an examinee or having an impersonator take an examination.

## MATERIALS

Only the examination booklet, the answer sheet, a special pencil, and slide rule or silent, battery-operated, pocket-size, electronic calculator without a print-out capability or an alphabetic keyboard are allowed on an examinee's desk, along with the single page of scratch paper (for arithmetical calculations) which DRE will supply and which **MUST** be turned in with the answer sheet and examination booklet.

## QUESTION CONSTRUCTION

Test items are phrased so that they measure the applicant's knowledge without making him or her wonder about their meaning. The questions must not be too difficult, too easy, unimportant or inappropriate for any reason. No question is meant to be a trick or catch question. Words are used according to their commonly accepted meanings.

## MULTIPLE CHOICE EXAM

All test items in the real estate exams are multiple-choice. While the examinee may feel that more than one answer has some element of correctness, the examinee must be able to eliminate the incorrect responses and choose the *correct* answer.

## Q AND A ANALYSIS

The following analyses illustrate the proper approach to exam questions:

### Question:

Under no circumstances may a broker:

- (a) receive a commission from both buyer and seller
- (b) appoint a subagent
- (c) misrepresent material facts
- (d) sell the principal's property to a relative

### Analysis:

- (a) *is incorrect*. A broker may receive a commission from both parties provided both buyer and seller have knowledge of the arrangement.
- (b) *is incorrect*. A broker may get prior consent from the principal to appoint other brokers as subagents to cooperate in selling the property.
- (c) **is correct**. A material misrepresentation is a violation of law.
- (d) *is incorrect*. The broker may sell to any purchaser provided the principal has full knowledge.

**Question:**

A valid bill of sale must contain:

- (a) a date
- (b) an acknowledgment
- (c) the seller's signature
- (d) a verification

**Analysis:**

- (a) *is incorrect.* Although a date is advisable, it is not required.
- (b) *is incorrect.* The law does not require an acknowledgment.
- (c) **is correct.** A bill of sale is an instrument which has been executed (signed) and delivered to convey title to personal property.
- (d) *is incorrect.* Verification means to confirm the correctness of an instrument by an affidavit or oath. Verification may be desirable but not required.

Examinees should be alert for questions phrased in the negative: e.g., "All of the following statements are correct, *except*;" or, "which of the following are *not* ...?" In the following sample question, three of the responses would be correct. However, the answer called for is the *incorrect* statement.

**Question:**

A valid deed must contain all of the following, *except*:

- (a) the signature of the grantor
- (b) a granting clause
- (c) an adequate description of the property
- (d) an acknowledgment of the grantor's signature

**Analysis:**

- (a) *is a correct statement.* The grantor is the person who conveys title to another and without the grantor's signature title will not pass.
- (b) *is a correct statement.* The granting clause is necessary to evidence the intent of the grantor.
- (c) *is a correct statement.* The property being transferred must be described so the grantor knows exactly what property is being conveyed to the grantee.
- (d) **is the incorrect statement.** An acknowledgment is necessary for recordation but is not required to make the deed valid.

**Sample Multiple Choice Items**

The following are examples of the types of questions that appear in the examination. No answers are provided. The results of practice should be checked against appropriate sources.

1. A broker selling a property on which he holds an option should notify the purchaser that he is acting as:
  - (a) an optionor
  - (b) a mortgagor
  - (c) a beneficiary
  - (d) a principal
2. Tax delinquent real property not redeemed by the owner during the five-year statutory redemption period is deeded to the:
  - (a) city
  - (b) county
  - (c) state
  - (d) school district
3. The maximum commission a broker may charge a seller for the sale of residential income property is:
  - (a) set forth in the Real Estate Law
  - (b) negotiable
  - (c) no more than 10 percent of the total sales price
  - (d) determined by local custom
4. In a typical percentage lease, rent is calculated as a percentage of:
  - (a) assets of the lessee's business
  - (b) net sales of the lessee's business
  - (c) gross sales of the lessee's business
  - (d) net taxable income of the lessee's business
5. The position of trust assumed by the broker as an agent for a principal is described most accurately as:
  - (a) a gratuitous relationship
  - (b) a trustor relationship
  - (c) a fiduciary relationship
  - (d) an employment relationship
6. The Federal Housing Administration's role in financing the purchase of real property is to:
  - (a) act as the lender of funds
  - (b) insure loans made by approved lenders
  - (c) purchase specific trust deeds
  - (d) do all of the above
7. We call the instrument used to remove the lien of a trust deed from record a:
  - (a) satisfaction
  - (b) release
  - (c) deed of reconveyance
  - (d) certificate of redemption

8. Which item would an appraiser use to arrive at a net income for capitalization purposes?
  - (a) cost of loans against the property
  - (b) allowance for rent loss and vacancies
  - (c) federal income tax
  - (d) reserve for appreciation of buildings
9. The type of mortgage loan which permits borrowing additional funds at a later date is called:
  - (a) an equitable mortgage
  - (b) a junior mortgage
  - (c) an open-end mortgage
  - (d) an extendible mortgage
10. Private restrictions on the use of land may be created by:
  - (a) private land use controls
  - (b) written agreement
  - (c) general plan restrictions in subdivisions
  - (d) all of the above
11. As used in real estate practices, the land of a riparian owner borders on:
  - (a) a river
  - (b) a stream
  - (c) a watercourse
  - (d) any of the above
12. A quitclaim deed conveys only the present right, title and interest of the:
  - (a) grantor
  - (b) servient tenement
  - (c) grantee
  - (d) property
13. If a \$54,600 investment in real estate generates gross annual earnings of 15%, the gross monthly return most nearly is:
  - (a) \$819
  - (b) \$705
  - (c) \$685
  - (d) \$637
14. You are a California real estate broker. A prospect is referred to you by an out-of-state broker and a sale is consummated by you. You want to split your commission with the cooperating broker. Under the California Real Estate Law:
  - (a) you may pay a commission to a broker of another state
  - (b) you cannot divide a commission with a broker of another state
  - (c) you can pay a commission to a broker of another state only if he is also licensed in California
  - (d) none of the above



15. A loan to be completely repaid, principal and interest, by a series of regular equal installment payments is a:
- (a) straight loan
  - (b) balloon payment loan
  - (c) fully amortized loan
  - (d) variable rate mortgage loan
16. If the broker, while acting as agent in a sale of real property, misrepresents the principal's property to a buyer, the broker may cause the principal to be subjected to:
- (a) rescission of the sale by the buyer
  - (b) a court action for damages by the buyer
  - (c) tort liability
  - (d) any of the above
17. In a legal sales contract, the seller is often referred to as the:
- (a) trustor
  - (b) divisor
  - (c) donor
  - (d) vendor
18. The instrument used to secure a loan on personal property is called a:
- (a) bill of sale
  - (b) trust deed
  - (c) security agreement
  - (d) bill of exchange
19. Community property is property owned by:
- (a) churches
  - (b) husband and wife
  - (c) the municipality
  - (d) the community
20. An apartment complex cost \$450,000. It brings in a net income of \$3,000 per month. The owner is making what percentage of return on the investment?
- (a) 7%
  - (b) 8%
  - (c) 11%
  - (d) none of the above
21. A person holding title to real property in severalty would most likely have:
- (a) a life estate
  - (b) an estate for years
  - (c) ownership in common with others
  - (d) sole ownership

22. Under the Federal Truth-in-Lending Law, two of the most critical facts which must be disclosed to buyers or borrowers are:
- (a) duration of the contract and discount rate
  - (b) finance charge and annual percentage rate
  - (c) carrying charge and advertising expense
  - (d) installment payments and cancellation rights
23. Appraisals of single-family dwellings are usually based on:
- (a) capitalization of rental value
  - (b) asking prices of comparable houses
  - (c) sales prices of comparable properties
  - (d) the assessed valuations
24. A contract based on an illegal consideration is:
- (a) valid
  - (b) void
  - (c) legal
  - (d) enforceable
25. The California "standard form" policy of title insurance on real property insures against loss occasioned by:
- (a) a forgery in the chain of recorded title
  - (b) liens or encumbrances not disclosed by official records
  - (c) rights of parties in possession of the property
  - (d) actions of governmental agencies regulating the use or occupancy of the property
26. A house sold for \$113,900, which was 11% more than the cost of the house. The cost of the house was most nearly:
- (a) \$99,960
  - (b) \$100,400
  - (c) \$101,370
  - (d) \$102,610
27. A secured real property loan usually consists of:
- (a) financing statement and trust deed
  - (b) the debt (note) and the lien (deed of trust)
  - (c) FHA or PMI insurance
  - (d) security agreement and financing statement
28. During escrow, if an unresolved dispute should arise between the seller and buyer preventing the close of escrow, the escrow holder may legally:
- (a) arbitrate the dispute as a neutral party
  - (b) rescind the escrow and return all documents and monies to the respective parties
  - (c) file an interpleader action in court
  - (d) do any of the above

29. Copies of all listings, deposit receipts, canceled checks, and trust records must be retained by a licensed real estate broker for:
- (a) one year
  - (b) two years
  - (c) three years
  - (d) five years
30. Parallel wooden members used to support floor and ceiling loads are called:
- (a) rafters
  - (b) joists
  - (c) headers
  - (d) studs
31. When a loan is fully amortized by equal monthly payments of principal and interest, the amount applied to principal:
- (a) and interest remains constant
  - (b) decreases while the interest payment increases
  - (c) increases while the interest payment decreases
  - (d) increases by a constant amount
32. Joint ownership of real property by two or more persons, each of whom has an undivided interest (not necessarily equal) without right of survivorship, is
- (a) a tenancy in partnership
  - (b) a tenancy by the entireties
  - (c) a tenancy in common
  - (d) a leasehold tenancy
33. A "loss in value from any cause" is a common definition of:
- (a) economic obsolescence
  - (b) depreciation
  - (c) principle of contribution
  - (d) adverse leverage
34. Which of the following is a lien?
- (a) an easement
  - (b) a zoning restriction
  - (c) an attachment
  - (d) all of the above are liens
35. Of the following, which is the most important reason for a broker to maintain a trust fund account in addition to a regular business account?
- (a) to provide a means of control over the destiny of transactions being negotiated
  - (b) it is easier from an accounting point of view
  - (c) the bank is responsible for any loss to the trust fund account resulting from embezzlement
  - (d) the consequence which could occur should legal action be taken against the broker

36. If an appraiser finds that the fair rent for a vacant parcel of land is \$1,400 per month and the interest rate is 11%, what is the approximate indicated land value?
- (a) \$109,090
  - (b) \$138,560
  - (c) \$152,730
  - (d) \$210,000
37. Economic obsolescence could result from each of the following, *except*:
- (a) new zoning laws
  - (b) a city's leading industry moving out
  - (c) misplacement of improvements
  - (d) an outdated kitchen
38. Which of the following is an appraiser's primary concern in the analysis of residential property?
- (a) marketability and acceptability
  - (b) square foot area
  - (c) functional utility
  - (d) fixed and operating expenses
39. A subordination clause in a trust deed may:
- (a) permit the obligation to be paid off ahead of schedule
  - (b) prohibit the trustor from making an additional loan against the property before the trust deed is paid off
  - (c) allow for periodic renegotiation and adjustment in the terms of the obligation
  - (d) give priority to liens subsequently recorded against the property
40. In order to evaluate a vacant commercial site, an appraiser decides to use the land residual technique. Here is the information the appraiser gathered:  
Cost new of a proper building - \$250,000;  
Estimated net income before recapture - \$32,800 per year; interest rate - 8.5%  
Estimated remaining economic life of building - 40 years
- What is the approximate estimated value of the land using this technique?
- (a) \$31,000
  - (b) \$47,000
  - (c) \$48,182
  - (d) \$62,353
41. Which of the following types of appraisal reports would be the most comprehensive and detailed?
- (a) narrative
  - (b) form
  - (c) certificate
  - (d) letter

42. A contractor obtained a construction loan, and the loan funds are to be released in a series of progress payments. Most lenders disburse the last payment when the:
- (a) building is completed
  - (b) notice of completion is filed
  - (c) buyer approves the construction
  - (d) period to file a lien has expired
43. To estimate the value of a parcel of real property, an appraiser concentrated only upon the cost to the buyer of acquiring a comparable, substitute parcel. This estimate approach is most similar to which of the following appraisal methods?
- (a) cost
  - (b) income
  - (c) market
  - (d) none of the above
44. Brown purchased a \$1,400 note secured by a second mortgage for investment purposes. The seller allowed a 15% discount. The note provided for monthly payments of \$122 including interest at 9% per annum over a one-year term. Brown received full payment on the above terms. The yield on Brown's investment, expressed as a percentage, is:
- (a) 23%
  - (b) 31%
  - (c) 34%
  - (d) 40%
45. The covenant of quiet enjoyment most directly relates to:
- (a) nuisances maintained on adjoining property
  - (b) possession of real property
  - (c) title to real property
  - (d) all of the above
46. An interest in real property may be acquired by either prescription or by adverse possession. The interest resulting from prescription is:
- (a) the right to use another's land
  - (b) a possessory title
  - (c) an equitable interest
  - (d) a private grant
47. Generally, the taking of private land by governmental bodies for public use is governed by due process of law and is accomplished through:
- (a) exercise of the police power
  - (b) eminent domain
  - (c) reverter
  - (d) escheat

48. Governmental land use planning and zoning are important examples of:
- (a) exercise of eminent domain
  - (b) use of police power
  - (c) deed restrictions
  - (d) encumbrances
49. Capitalization is a process whereby an appraiser:
- (a) converts income into capital value
  - (b) determines depreciation reserves
  - (c) establishes cost of capital investment
  - (d) finds gross income of equity capital
50. In arriving at an effective gross income figure, an appraiser of rental property makes a deduction for:
- (a) real property taxes
  - (b) repairs
  - (c) vacancy
  - (d) depreciation